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## **The economy and the future of IT**

By Marc Berthiaume

By now, we are all aware that the U.S. and global economies are unstable. Banks, real estate, credit companies and many industries have taken a hit. Business and residential costs are skyrocketing for automotive and heating fuel, food and just about every marketable item. How is this unstable economy affecting the information technology industry?

Job cutbacks by the industrial giant Siemens are one illustration of how the economy is affecting IT, which is a major component of Siemens' global enterprise. In a July press release, the company said it plans to cut 4 percent of its workforce as a result of recent economic woes. Almost 21,000 jobs will be eliminated.

Siemens Chief Executive Peter Loescher said the company needs to become faster and more efficient and increase its technology offerings in order to be competitive. He believes this takes on special urgency when the economy takes a turn south.

Siemens' woes are indicative of how many IT companies are faring in the present economic environment.

### **History repeats itself**

When looking at the effects of today's economy on IT, much can be gained by reviewing the causes and factors of the "tech bust" of 2000. Those causes and factors can be beneficial in minimizing negative effects now.

According to a report from the University of New Hampshire's Whittemore School of Business and Economics, some high-tech areas in the U.S. fared worse than others in the 1990s tech bust. Why?

The report lists some major factors that contributed to success or failure then — and will contribute to success or failure now in this floundering economy:

- Venture capital investment levels negatively correlate with percentage change in employment, suggesting that there can be "too much of a good thing" in terms of money available for start-up and high-growth ventures during economic upswings. This might reflect too much capital chasing too few sound business ventures in "hot markets" or detrimental aspects among venture capitalists and aspiring entrepreneurs that foster hype, speculation and non-prudent investments.
- Technology centers with the highest concentrations of high-tech employment are most adversely affected by economic downturns. Researchers found that the "tech poles" with the highest concentrations of high-tech employment — high technology, professional and technical services, information industries and manufacturing — were the most adversely affected. (Boston and New York among the top 25 tech poles.) The finding indicates that these areas can benefit from diversification outside high tech. Diversification within high technology also can be beneficial.
- Policies that raise wages in technology centers can contribute to employment decline during economic downturns. The concern is whether or not wages in other industries keep up with high-tech wages. The finding with regard to the effect of wage levels in technology centers during the 2000s suggests that livable wage legislation that increases metropolitan-area, average all-industry wages can potentially hurt those it is intended to help.



- Entrepreneurship may be one of the major factors that contributes to economic recovery, although it may not be significant in preventing economic decline in technology centers in the first place.

The UNH report summarizes: “High-technology regions, just as ‘traditional’ industry regions over the past century, are vulnerable to pronounced economic cycles of growth and decline. The cycles can be particularly pronounced if regional economies are not well diversified and labor costs are not moderated during economic downturns.”

### **Hope for the future**

Nowadays when we consider business growth, we must think of it from a global perspective — especially so for the IT industry.

According to an article in Computerworld UK, the “IT and Telecoms Insights 2008 Employment Forecast Report” says demand for high-level IT professionals will grow over the next 10 years. It suggests that IT-based careers are better protected from the effects of the current economic uncertainty.

James Toovey of the recruitment firm Langley James predicts that many people will switch professions and enter the IT sector: “Clients show a distinct preference for experienced staff, and so (IT) people may find that they need to extend their skill set and swap sectors if they want to stay competitive in the job market.”

Thus future IT customers can expect faster, more efficient service, more diversified product offerings, and more highly trained IT professionals working in a more entrepreneurial environment.

The current economy will bring changes in the IT industry, resulting in a smarter, more focused way of doing business. This will benefit both IT customers and IT professionals and create a bright future for the IT world.

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